



## **Staff Report**

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### **RESPONSE TO THE SAN MATEO COUNTY 2008-2009 CIVIL GRAND JURY REPORT UPWARD TRAJECTORY OF EMPLOYEE COSTS IN THE CITIES OF SAN MATEO COUNTY**

Honorable Mayor and Council Members:

#### **Summary**

The San Mateo County 2008-2009 Civil Grand Jury filed a report titled *Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County* (Attachment A). This report contains findings and recommendations pertaining to the City of Belmont. The City must respond to the Grand Jury Report no later than September 3, 2009. Staff has prepared responses on behalf of the City (Exhibit B) for Council review and comment.

#### **Background**

The Civil Grand Jury is empanelled each year in each County in the State; their charge, under State Law, is to review local governmental operations and make recommendations for improvements.

On June 2, 2009 the City obtained a copy of the abovementioned report which was distributed to City Council, Department Heads and Union Organizations representatives. The report presents information obtained by analyzing examples of wages, post-retirement health care and pension benefits as well as current benefit and city hiring practices which increase public costs. The Grand Jury's findings assert that the costs incurred by San Mateo County's Cities for employee compensation and benefit packages continue to escalate, despite the substantial deficits experienced in the recent economic downturn. The report also recommends cities amend current and future compensation and benefit practices, as well as voter actions that San Mateo county cities can implement to reverse this upward trajectory.

#### **Conclusions**

The grand jury report has many excellent public policy observations and in time the City would be well advised to consider them going forward. City staff pledges to do so. Paying attention to compensation practices in the private sector and adopting best practices where appropriate is an example. However, the tone of the grand jury report is "angry" and this, we question.

The Grand Jury report makes several conclusion regarding employee costs. Essentially, their report concludes employee costs in San Mateo County are escalating and need to be contained. While this may be true in some cities, it is an unfair depiction in Belmont. Belmont has not enhanced non-safety pension formulas like most cities, a target of the grand jury report. Employee costs represent 66% of operating costs, well below City averages and well below levels of fiscal stress. Belmont's elected officials, management and union officials have historically acted in a fiscally conservative and prudent manner. Belmont is one of the few cities in the County where employee cost growth over the last seven years was less then revenue growth. As a result, City general fund reserves have grown during this period. This has allowed the City to weather the current economic downturn and buffer the impact to citizens and services.

The best way to control municipal labor costs is to minimize or optimize the number of people on the City payroll. Belmont has done that with a balance between permanent City staff, part time personnel and contract services and will continue to do so. We have one of the lowest ratios of employees per 1,000 population in the County. Hiring and retaining the best people and giving them the compensation package, training and tools to maximize their productivity is a winning strategy. Declaring war on our labor unions is not. Providing municipal services is a labor intensive operation. Police services, for example, represent the largest portion of our City General fund costs. This is true in most cities. This service is accomplished with highly trained, highly skilled knowledge workers. It is reasonable to assume they will be well paid. One poor decision on the part of a City police officer can cost taxpayers millions. For that matter, one poor decision on the part of any City employee, safety or non safety, can cost the taxpayer millions. Dumbing down the workforce by lowering employ wages is not a smart strategy in the long term if your costs are already reasonable, as are Belmont's.

### **Discussion**

In response to the Grand Jury Report's report, staff is requesting that Council review, comment, and provide direction on the City's draft response (Attachment B). Included with this response is a joint response from the San Mateo County City Manager's Association (Attachment C), prepared in collaboration with the San Mateo County Municipal Employee Relations Committee (MERC) and the San Mateo County Human Resources Association.

### **General Plan/Vision Statement**

Not applicable.

### **Fiscal Impact**

It is anticipated there will be no impact to the budget. Depending on the recommendations pursued, the City may actually see cost-savings in the long term.

### **Public Contact**

Posting of City Council Agenda. Copies of staff report and attachments provided to labor groups (AFSCME, MMCEA and BPOA).

**Recommendation**

Staff recommends that the City Council provide direction to City staff and approve the draft response to the San Mateo Grand Jury Report.

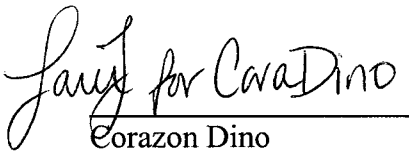
**Alternatives**

1. Provide staff with alternative direction
2. Take no action.

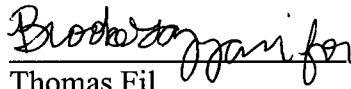
**Attachments**

- A. San Mateo Civil Grand Jury Report *Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County.*
- B. City of Belmont Draft Response to the San Mateo Grand Jury
- C. City Managers Association Response

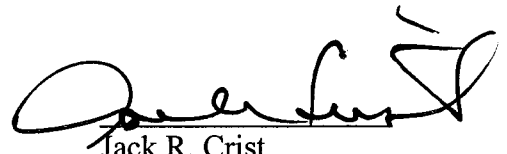
Respectfully submitted,



Corazon Dino  
Human Resources Director



Thomas Fil  
Finance Director



Jack R. Crist  
City Manager

**Staff Contact:**

Corazon Dino, Human Resources Director  
(650) 637-2988  
[cdino@belmont.gov](mailto:cdino@belmont.gov)

**ATTACHMENT A**

**San Mateo County Civil Grand Jury Report  
Reversing the Upward Trajectory of Employee Costs  
in the Cities of San Mateo County**



## **Summary of Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County**

In the cities of San Mateo County, employees' wages and compensation packages continue to escalate, despite the deficit environment that has existed since the dot-com bubble burst and despite the aggravated deficits experienced in the more recent economic downturn.

To accommodate escalating employee costs, and balance their budgets, cities have increased user fees, raised taxes, issued bonds, transferred funds from their reserves, and postponed needed infrastructure projects. Because personnel costs typically comprise 70% of the operating budgets in the cities of San Mateo County, any cost-containment measures must halt and reverse the escalation of employee-costs.

In this report, the 2008-2009 San Mateo County Civil Grand Jury analyzes examples of wages, post-retirement health care and pension benefits, as well as current benefits and city hiring practices that increase public employee costs.

The report also recommends to cities and voters actions they can implement to reverse this upward trajectory.

The 2008-2009 San Mateo County Civil Grand Jury concludes and recommends that:

- The escalating employee costs can and should be reversed so civic services and infrastructure improvements are not neglected.
- In addition to stop-gap measures, such as temporary wage freezes and furloughs, long-term solutions should be implemented.
- Labor union contracts for newly hired municipal employees should be introduced to reduce the cost to cities of both pension and post-retirement health care plans.
- For current, as well as newly hired employees, salary increases, total days off, the ability to convert sick leave to cash, and vacation pay must be contained.
- The practice of narrowly basing salaries and compensation packages entirely on those of nearby cities should be reconsidered. Hiring practices should be expanded to include competition with the private sector.
- Where cost-efficiencies can be achieved, services should be contracted out to other cities or private sector firms.
- Cooperation between cities to reduce overlapping functions should be pursued.
- Political barriers to change exist because all those negotiating employee contracts--staff, unions and city council members--benefit when wage and compensation packages increase.
- Barriers to change should be neutralized by providing for increased public involvement and, possibly through ballot measures.



# **Reversing the Upward Trajectory of Employee Costs in the Cities of San Mateo County**

## **Issue**

How can the escalation of employee costs in the cities of San Mateo County be reversed?

## **Background**

During the dot-com boom, from 1995 to 2001, the labor market was very tight, and the cities in San Mateo County and the rest of Silicon Valley had to offer competitively high wages, good benefits, and good pensions to attract qualified workers. The stock market was booming, and pensions were inexpensive to fund. Flush with revenues, city services and staff expanded. During this period, job security, salaries, pensions, and benefits became enshrined in union contracts, so when the dot-com bubble burst and city revenues declined, the cities found themselves chained to employee obligations they could no longer afford.

The police and firefighter unions were empowered to greatly expand wage and benefits for their members after California enacted a binding arbitration law in 2001. The law was struck down in 2003 by the California Supreme Court, but the negotiated gains were not reversed.

After the dot-com boom, cities started experiencing chronic deficits. New taxes and user fees were introduced, bonds were issued, and infrastructure projects were postponed to accommodate the new economic realities.

The economic downturn, which began in the fall of 2008, is exacerbating city fiscal problems for five major reasons:

- Revenues from property taxes are not increasing as much as projected.
- Revenues from sales taxes are decreasing.
- Contributions from the State are decreasing.
- Anticipation that the California Public Employees' Retirement System (CalPERS) will require cities to make larger than projected contributions.<sup>1</sup>
- Personnel costs are scheduled, by contract, to rise.

In this report, the 2008-2009 San Mateo County Civil Grand Jury takes a broad look at personnel costs in the cities of San Mateo County and examines what can be done to reverse their upward trajectory so that cities become economically sustainable.

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<sup>1</sup> CalPERS is a retirement system that was created in 1932 to provide retirement benefits for state employees. As of 2007, CalPERS provides retirement benefits to approximately 443 of 478 California cities and to all the cities in San Mateo County.

Cities are limited to the following options for reducing personnel costs:

- Cities can change pensions and retiree health care benefits<sup>2</sup> for new hires.
- Cities can renegotiate contracts for existing employees with the unions.
- Cities can change personnel policies.
- Citizens can consider ballot measures, which, if passed, could mandate change for new hires and for personnel policies. Such measures can be initiated by the cities or the citizens.

## **Investigation**

The 2008-2009 San Mateo County Civil Grand Jury interviewed city managers, city finance directors, and a union official. The Grand Jury reviewed labor contracts, various Comprehensive Annual Financial Reports, and city budgets. Additionally, the Grand Jury surveyed cities for information on employee compensation, retirement benefits, current benefits, obligations for post-retirement health care benefits, pension plans, and other information.

## **Findings and Discussion**

The 2008-2009 San Mateo County Civil Grand Jury found that:

- Eighteen cities forecast that employee costs will increase by at least 4% per year over the next five years, even as revenues decline.
- Approximately 70% of general fund budget expenses in most full-service San Mateo County cities are spent on employee salary and compensation packages because cities are primarily providers of services.
- The opportunity for significantly increasing revenues is limited to increasing taxes and fees.
- Controlling employee costs, from a long and short-term perspective, is the only meaningful way chronic deficits can be overcome.

The findings and discussion of the report are divided into three major sections:

- 1) Salary and Compensation Packages
  - a) Retirement Pension Benefits
  - b) Other Post Employment Benefits (OPEBs)
  - c) How Pensions and OPEBs are Funded by the Cities
  - d) Benefits for Current Employees
  - e) Salaries for Current Employees
- 2) Personnel Policies
  - a) How Wage and Compensation Policies Are Set
  - b) Staff Size

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<sup>2</sup> California Supreme Court ruled that retirement pension benefits cannot be decreased for existing employees but has not yet made a similar ruling on retiree health care benefits. 3

### 3) The Role of Politics

- a) The Nexus Between City Council Members, Unions and Staff
- b) Public Involvement

## 1. Salary and Compensation Packages

### a) Retirement Pension Benefits

#### **Defined-Benefit Plan:**

Employees in a defined-benefit retirement system are promised a specific, life-long annual pension at the time of their retirement, related to their years of service and the salary they received at the time of retirement. In addition, as part of the pension plan, benefits are provided for disability and death, with payments in some cases going to survivors or beneficiaries of eligible members.

In the cities of San Mateo County, as well as many public sector organizations, benefited employees are enrolled in a defined-benefit retirement system. Benefited employees include all full-time employees and many part-time employees. The cities make Social Security contributions for non-benefited employees.

#### **CalPERS**

The defined-benefit plan in which city employees in the cities of the County are enrolled is CalPERS. Contributions made by the cities to retirement benefits are deposited in CalPERS. CalPERS invests, manages, and distributes money to employees when they retire. Cities are required to increase their contributions when the costs of benefits increase and/or when investment returns decline.

#### **Examples of How the CalPERS Formula Works for Regular Employees**

Each city chooses among legislatively approved formulas that determine the amount of lifelong pensions. The formulas are shown in Appendix 1. The most common formula for regular employees, who are workers other than police officers and firefighters, is 2.7% at age 55. Applying this formula takes 2.7% of the last year's salary multiplied by years of service, which they can start receiving at age 55, upon retiring.

- Regular city employees who worked for 30 years will receive 81% of their last year's salary for life.
- Regular city employees who worked for 20 years will receive 54% of their last year's salary for life. (Table 1)
- In addition, employees will receive an annual cost of living adjustment (COLA) of up to 2% a year.

#### **Examples of How the CalPERS Formula Works for Safety Employees**

Police Officers and Firefighters



The typical formula for safety employees is 3% at age 50, upon retirement, which means that an employee will receive 3% of their last year's salary, multiplied by the number of years of service, which they can start receiving at age 50.

- Employees who worked for 30 years, using that formula, will receive 90% of the last year's salary for life.
- Employees who worked for 20 years will receive 60% of the last year's salary for life.
- In addition, employees will receive an annual cost of living adjustment (COLA) of up to 2% a year.

Table 1 provides examples of lifetime retirement pension benefits based on the formulas reviewed above for regular and safety employees. The examples in the table assume that the employee has worked in the cities for the years specified, but in fact, the employees in the example below may have been in the CalPERS system with other cities longer than the table assumes, and if they were, their pensions will be larger than shown.

**Table 1: Examples of Lifetime Retirement Pensions**  
(Does Not Include Health Care Benefits or Annual COLAs)<sup>3</sup>

Employee	Last Year Salary	Number Years Worked and Age	Percentage of Last Year of Salary	Annual Retirement Pension
Regular employee 2.7% @ 55	\$110,725 <sup>(1)</sup>	30 years, age 55	81%	\$89,687
Regular employee	\$86,709 <sup>(2)</sup>	20 years, age 55	54%	\$46,822
Regular employee	\$63,465 <sup>(3)</sup>	10 years, age 52	27%	\$17,135
Safety employee 3% @ 50	\$110,968 <sup>(4)</sup>	30 years, age 50	90%	\$99,871
Safety employee	\$96,434 <sup>(5)</sup>	20 years, age 50	60%	\$57,860

(1) The median 2008 salary for regular employees with 30 plus years in South San Francisco.

(2) The median salary for regular employees with 20 years in South San Francisco.

(3) The median salary for regular employees with 10 years in South San Francisco.

(4) The median salary for a Hillsborough safety officer with 30 years.

(5) The median salary for a Hillsborough safety officer with 20 years.

**NOTE:** Employees carry their years of service with them as long as they stay in CalPERS, so a 52 year old employee may have been employed in South San Francisco 10 years, but s/he may have many more years for the purpose of calculating the actual retirement benefits s/he will receive.

<sup>3</sup> Formulas on Tables 1 and 2 express as percent of salary correlated with years of service and age for both safety and regular employees can be seen at: <http://www.calpers.ca.gov/eip-docs/member/retirement/service-retain/benefit-charts/pub-9-2.5percent-55.pdf>

Table 2 demonstrates the differences in lifetime pension benefits when a less generous formula is applied to regular employee salaries, as shown above in Table 1. In this case, the formula is 2% at age 55 and was the most prevalent formula used by cities until about 2006.

**Table 2: Lifetime Retirement Benefit For Regular Employees  
Using the 2% at Age 55 Formula**

<b>Employee</b>	<b>Last Year Salary</b>	<b>Number Years Worked and Age</b>	<b>Percentage of Last Year of Salary</b>	<b>Annual Retirement Pension</b>
Regular Employee	\$110,725	30 years, age 55	60%	\$66,453
Regular Employee	\$86,709	20 years age 55	40%	\$34,683
Regular Employee	\$63,465	10 years age 52 (Can collect in 3 years)	20%	\$12,729

Table 3 shows the retirement formulas used by cities at the beginning of 2009. Most cities increased their formulas from 2% at age 55 to the 2.7% at age 55 currently used. Also, instead of basing retirement on an average of the last three year's salary, the last year of salary is now most commonly used. Note that the cities appear to proceed in unison.

**Table 3: Retirement Formulas for San Mateo County Cities**

San Mateo County City	Retirement Formula - The Percentage Gained For Each Year Worked and Age Needed to Retire		Pension Based on Last Year's Salary or the Average of Three Years
	Safety	Regular	All Employees
Atherton	3% @ 50	2.0% @ 55	3 Year Average
Belmont (see Table 4)	3% @ 50	2.0% @ 55	Last Year
Brisbane (see table 4)	3% @ 55	2.7% @ 55	Last Year
Burlingame	3% @ 50	2.5% @ 55	Last Year
Colma	3% @ 50	2.5% @ 55	Last Year
Daly City	3% @ 55	3.0% @ 60	Last Year
East Palo Alto	3% @ 55	2.5% @ 55	3 Year Average
Foster City	3% @ 50	2.7% @ 55	3 Year Average
Half Moon Bay	3% @ 50	2.0% @ 55	Last Year
Hillsborough	3% @ 50	3.0% @ 60	Last Year
Menlo Park	3% @ 50	2.7% @ 55	Last Year
Millbrae	3% @ 50	2.7% @ 50	Last Year
Pacifica	3% @ 50	2.5% @ 55	Last Year
Portola Valley	-	2.0% @ 55	3 Year Average
Redwood City	3% @ 50	2.7% @ 55	Last Year
San Bruno	3% @ 50	2.7% @ 55	Last Year
San Carlos (see Table 4)	3% @ 50	2.7% @ 55	Last Year
San Mateo	3% @ 50	2.0% @ 55	Last Year
So San Francisco	3% @ 50	2.7% @ 55	Last Year
Woodside	-	2.5% @ 55	Last Year

Table 4 shows that some cities have introduced a two-tier system for newly hired employees (New Hires) in which the retirement formula is reduced. The employees who were in the system before the reduction will continue to receive the more generous pensions.

**Table 4: Cities That Have Reduced Retirement Formulas for New Hires**

San Mateo County City	Police		Firefighters		Regular Employees	
	Prior Hires	New Hires	Prior Hires	New Hires	Prior Hires	New Hires
Belmont *	-	-	3% @ 50*	3% @ 55*	2.0% @ 55	2.0% @ 60
Brisbane	3% @ 50	3% @ 55	3% @ 50	3% @ 55	2.7% @ 55	2.0% @ 60
San Carlos *	3% @ 50	3% @ 55	3% @ 50*	3% @ 55*	2.7% @ 55	2.5% @ 55

\* Belmont-San Carlos Fire Department

#### **b) Other Post Employment Benefits**

All San Mateo County cities provide other post employment benefits (OPEBs) in addition to pension benefits to their retirees. OPEBs typically include health, dental, vision, prescription, or other health care benefits provided to eligible retirees, their families, and in some cases, their beneficiaries. However, benefits vary widely, from no additional contributions after retirement, to full retiree and dependent coverage for life, after a vesting period. These health benefits are tax-free.

Retiree health insurance premiums have been escalating. The increased number of baby boomers reaching retirement age and employees retiring at a younger age are affecting this cost.

Cities are required by the Governmental Accounting Standards Board (GASB) to calculate their long-term retiree health obligations by June 2010, depending upon the amount of city revenues. Therefore, complete information is not yet available. The magnitude of the obligations may be seen in Table 5. Eligible employees are those that are already vested.

**Table 5: Other Post Employment Benefits, Where Known<sup>4</sup>**

San Mateo County City	Eligible Employees	Eligible Retirees	OPEBs Expenditures (\$/yr)	Estimated Liability (\$)	Health Expenditure per Retiree (\$/yr)
Atherton	34	12	33,365	-	2,780
Belmont	123	56	358,000	8,645,000	6,393
Brisbane	81	25	104,000	-	4,160
Burlingame	256	216	1,750,000	66,300,000	8,102
Colma	50	14	138,000	-	9,857
Daly City	520	294	-	-	-
East Palo Alto	-	-	-	-	-
Foster City	65	31	119,856	2,974,000	3,866
Half Moon Bay	550	10	8,722	6,556,500	877
Hillsborough	85	82	677,385	15,378,000	8,261
Menlo Park	235	67	-	13,000,000	-
Millbrae	90	50	267,754	0	5,355
Pacifica	110	10	21,908	-	2198
Portola Valley	-	-	-	-	-
Redwood City	534	248	1,274,543	51,844,000	5,140
San Bruno	-	-	-	2,040,000	-
San Carlos	106	60	242,000	6,691,000	4,033
San Mateo	540	380	722,000	20,000,000	1,900
So San Francisco	397	232	1,200,000	-	5,172
Woodside	47	34	-	-	-

### Modified Healthcare Plans

Hillsborough and Brisbane have recently introduced modified plans for all or some of their new employees. In both cases, the obligations of the cities end when the employee retires. For example, Hillsborough contributes \$75 a month to a tax-free Health Savings Account for each eligible employee hired after 2002, which, after vesting, the employee can take into retirement. Three of Hillsborough's four labor unions, including a police union, have accepted this arrangement. These plans are tax sheltered, and an employee can contribute to them. However, in both cases, the cities continue to fulfill more generous obligations to employees who were hired prior to adoption of the defined contribution plans.

In San Carlos, employees hired before January 1, 2009, who have worked with the city for ten years, receive a contribution to their health care of a minimum of \$610 per month for life. That amount increases by the same percentage as the contributions increase for current employees.

<sup>4</sup> Based on the 2007-2008 San Mateo County Civil Grand Jury report. <http://www.sanmateocourt.org/grandjury/2007/reports/benefits.pdf>

However, for employees hired after January 1, 2009, that amount will decrease to \$350 per month, for life, for retired employees. The vesting period is 15 years. The amount will not fluctuate.

**c) How Pensions and Other Post Employment Benefits are Funded by Cities**

To cover pension obligations made by the cities, city workers pay fixed rates into CalPERS, while the rate for cities is adjusted every three years. Rates are determined by the performance of CalPERS investments and the anticipated pension obligations, as calculated for each city. The payment is made as a percentage of employee salaries.

Table 6 shows the percentage of salary paid to both CalPERS and OPEBs (where known). Note how much higher contributions are for police, who are all eligible to receive retirement pensions based on the 3% at age 50 formula, compared to regular employees, most of whom receive a pension based on the 2.7% at age 55 formula, or less.

**Table 6: Employer Contributions as a Percentage of Salary to CalPERS and OPEBs  
(Where Known)**

San Mateo County City	Employer Contributions as a Percentage of Salary to CalPERS Retirement			Employer Contributions as a Percentage of Salary to OPEB Retirement (Where Known)		
	Safety Employees		Regular Employees	Safety Employees		Regular Employees
	Police	Firefighters		Police	Firefighters	
Atherton	38.66	-	20.10	-	-	-
Belmont	30.06	-	13.05	9.4	9.4	-
Brisbane	14.80	14.80	13.49	-	-	-
Burlingame	19.99	16.12	11.85	-	-	-
Colma	27.10	-	13.18	-	-	-
Daly City	22.25	22.25	19.67	2.5	2.5	2.5
East Palo Alto	19.08	-	11.58	-	-	-
Foster City	33.01	33.01	13.93	1.0	1.0	1.0
Half Moon Bay	30.33	-	13.39	-	-	-
Hillsborough	37.36	29.53	25.41	-	-	-
Menlo Park	34.90	-	15.24	4.0	4.0	3.2
Millbrae	16.88	19.58	11.91	-	-	-
Pacifica	37.52	31.37	22.23	20.0	15.5	5.9
Portola Valley	-	-	14.07	-	-	-
Redwood City	29.38	29.38	15.42	3.9	3.9	3.5
San Bruno	30.72	30.72	14.22	9.0	9.0	8.0
San Carlos	38.19 *17.63	52.24 *17.63	17.38	6.7	6.7	7.6
San Mateo	28.14	28.14	11.18	2.0	2.0	2.0
So San Francisco	29.13	29.13	17.22	-	-	-
Woodside	-	-	12.03	-	-	-

\*For new hires with 3% at age 55 (versus 3% at age 50, as shown in the figure above).



## **Employee Contributions to Retirement Pensions and OPEBs are as Follows:**

- Regular employees contribute 8% of their salaries to CalPERS when the city formula is 2.70% at age 55, and 7% into CalPERS when the city formula is less.
- Safety employees contribute 9% of their salaries to CalPERS when the city formula is 3% at age 50, and 8% into CalPERS when the city formula is less.
- Employees in San Mateo County cities contribute nothing to OPEBs.
- For non-benefitted employees, who are enrolled in Social Security and Medicare, both the employer and employee pay 6.2% of gross compensation up to the current limit of \$106,800, toward retirement benefits. The employer and employee each pay 1.45% of gross wages, with no limit, toward Medicare. The retirement age for receiving full Social Security benefits is 67 for persons born after 1960.

## **Methods Cities Use to Cover Pension and OPEBs Debt**

To meet the pension and OPEBs obligations already incurred, some cities such as San Carlos, San Mateo, Daly City, and Burlingame, have issued Retirement Obligation Bonds ranging in an amount from \$11 million to \$36 million. These bonds need not be voter approved.

Bonds scheduled to be issued by the City of Pacifica in 2008, to cover unfunded city employee pension liabilities in the amount of \$17.7 million, were not put up for sale because the municipal bond market had collapsed. Therefore, the City of Pacifica will continue to pay CalPERS interest on that obligation, which is currently 7.75%.<sup>5</sup>

The City of Menlo Park diverted \$13 million from its general fund to cover its retiree health care liability.

### **d) Benefits For Current Employees**

Benefits for current employees include:

**Healthcare:** In almost all cities, the cost of employee health, dental, orthodontia, and vision care is completely covered, or almost completely covered, by the cities. These costs are rising. In Daly City, for example, the cost of medical, dental, and vision per employee in 2009 ranged from \$977 to \$1,221 per month, up from \$884 to \$1105 per month, in 2008. In five County cities, any increase in the cost of health care for current employees is automatically applied to retirees.

**Other Benefits:** Other benefits include tuition, childcare costs, longevity bonuses, and others.

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<sup>5</sup> Emde, Lionel, *Pacifica Riptide*, "Our Fiscal Crisis: Pacifica Pension Obligation Bonds Unsold," April 19, 2009, [http://www.pacificariptide.com/pacifica\\_riptide/2009/04/our-fiscal-crisis-pacifica-pension-obligation-bonds-unsold.html](http://www.pacificariptide.com/pacifica_riptide/2009/04/our-fiscal-crisis-pacifica-pension-obligation-bonds-unsold.html), and confirmed by the City of Pacifica

**Days Off:** Employees are paid time off for holidays, vacations, personal leave days, plus time for sick leave. Table 7 shows the number of possible days off for a regular, non-management employee who has worked for a city for four years. The median number of years of regular-employee tenure is approximately ten.

**Paid Time Off:** The number of vacation days typically increases based on length of employment. For example, a regular non-management employee in the City of Half Moon Bay will receive the following:

- After working four years, an employee will receive a time-off total of five weeks plus two days per year, not counting up to twelve days of sick leave.
- After working eleven years, an employee will receive a time off total of eight weeks plus three days per year, not counting up to twelve days of sick leave.

**Accumulated Vacation Days** can be:

- Converted to cash at termination or retirement and/or
- Added to the number of years of service and calculated into the retirement benefit, sometimes at the higher salary being received at retirement. Restrictions may be imposed. For example, in San Carlos, the maximum accrual time is two years, and any time beyond two years is cashed out.

**Unused Sick Days** can be:

- Converted to cash at termination or retirement. Cash conversion rates range from 15% to 50% of the value of unused sick leave. There are also caps on the amount of leave that can be converted.
- Added to the number of years of service and calculated into the retirement benefit.
- Applied as health credits: these are used to extend or enhance post-retiree health care plans.

**TABLE 7: Days Off for a Regular Employee, Who Has Worked 4 Years with a City**

	Vacation Days per Year for a Regular Employee	Holidays	Floating or Personal Leave Days	Total Possible Days Off	Plus (+) Sick Days per Year
Atherton	15	11	1	5 weeks 2 days	+2 weeks 2 days
Belmont	10	11	2	4 weeks 3 days	+2 weeks 2 days
Brisbane	15	12 + 2 days @ 4 hr	3	6 weeks 1 day	+2 weeks 2 days
Burlingame	10	14	-	4 weeks 4 days	+2 weeks 4 days
Colma	10	13	3	4 weeks 3 days	+2 weeks 2 days
Daly City	13	10 + 2 days @ 4 hr	-	4 weeks 4 days	+2 weeks 2 days
East Palo Alto	10	12	-	3 weeks 1 days	+ 3 days
Foster City	12	11 + 2 days @ 4 hr	-	4 weeks 4 days	+2 weeks 2 days
Half Moon Bay	12	14	1	5 weeks 2 days	+2 weeks 2 days
Hillsborough	15	11	2	6 weeks	+2 weeks 4 days
Menlo Park	13	11	4 days + 2 hrs	6 weeks 1 day	+2 weeks 2 days
Millbrae	12	10	3	5 weeks 5 days	+2 weeks 2 days
Pacifica	11	11	2	4 weeks 4 days	+2 weeks 2 days
Portola Valley	10	13	0	4 weeks 3 days	+2 weeks 2 days
Redwood City	10	12	2	4 weeks 4 days	+2 weeks 2 days
San Bruno	10	11	3 days + 4 hrs	5 weeks	+2 weeks 2 days
San Carlos	12	10	5	5 weeks 2 days	+2 weeks 2 days
San Mateo	16	10	3	4 weeks 4 days	+2 weeks 2 days
South San Francisco	15	11 + 2 days @ 4 hr	-	5 weeks 2 days	+2 weeks 2 days
Woodside	-	13	24	7 weeks 2 days	none

### **e) Salaries for Current Employee**

Employee union contracts have automatic salary increases, known as “step” increases. The first increase will typically come after the initial six months in a position, and the last will be reached in 3.5 years.<sup>6</sup> Then, the employee may go on to Step II. These scheduled increases do not include pay-for-performance adjustments.

In addition, step categories are increased annually to reflect COLA increases. In the years starting July 1, 2008 and ending June 30, 2011, the COLA increase in one San Carlos contract is scheduled to rise by 9.5%.

It is beyond the resources of this Grand Jury to analyze the salaries of the twenty cities in San Mateo County. However, from the Bureau of Labor Statistics the Grand Jury learned that nationwide, state and local government workers are paid an average of \$25.30 per hour, which is 33% higher than the private sector’s \$19.00 per hour. The gap widens to 42% when pensions and other benefits are included.<sup>7</sup> The Grand Jury recognizes that the private sector covers a wider range of jobs than the public sector.

### **Representative Salaries**

From cities, the Grand Jury learned that:

- Daly City has 562 full-time employees, including police and firefighters. In 2009, the median salary for a maintenance worker without current benefits or retirement benefits is \$84,610. Twelve employees earned less than \$50,000 per year. One hundred ninety-five employees have base salaries of more than \$100,000.
- South San Francisco has 371 full-time employees, including police and firefighters, who have worked for the city at least one year. In 2008, the median salary, without current benefits or retirement benefits, was \$83,873. Without firefighters and police, the median salary was \$65,335. Twenty-five employees earned less than \$50,000 per year. Eighty-seven earned more than \$100,000.
- In Hillsborough, the 2009 median salary for 113 full-time employees is \$92,133 without current or retirement benefits. Ten employees will earn more than \$100,000, and four will earn less than \$50,000.
- In Foster City, the median salary in 2009, for 212 full-time employees including police and firefighters, is \$83,685 without current or retirement benefits. One employee will earn less than \$50,000. Fifty-six will earn more than \$100,000 a year.

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<sup>6</sup> An Administrative Assistant position in San Carlos, beginning in 2010, will make \$4,684 per month. After six months in that position, the employee will make \$5108 a month. After three and a half years, that employee will make \$5,913 per month.

<sup>7</sup> <http://www.bls.gov/news.release/ecec.nr0.htm>

## Representative Increases in Salaries and Benefits

From newspaper articles the Grand Jury learned that:

- In Menlo Park, from 2001 to 2006, the number of full-time equivalent employees dropped 13%, but personnel costs increased 27%.<sup>8</sup>
- In 2007, Menlo Park employees received a 35% boost in pension benefits.<sup>9</sup>
- In the City of San Mateo, total payroll increased from \$54.1 million in 2006 to \$61.5 million in 2008-- an increase of 12.1%. These figures include current benefits but not retirement benefits.<sup>10</sup>
- In Burlingame, total payroll jumped 11% from 2006 to 2008.<sup>11</sup>
- On February 9, 2009, the Pacifica City Council approved a new one-year contract with the fire battalion chiefs represented by Teamsters Local 856, retroactive to July 1, 2008. The contract featured a lump-sum payment of \$4,778.96 for members of the bargaining unit, a three percent increase in the base hourly rate, and an option of two different health plans. The monthly contributions from the city per employee are either \$1,022 or \$1,154.<sup>12</sup>
- In January 2009, the Menlo Park City Council approved a raise that will increase the total pay for eight police sergeant positions 30 percent-- from \$107,086 to \$131,452-- by 2011. In that year, the new sergeants' contract will cost the city \$2.29 million, \$529,000 more than the \$1.76 million it paid in the current 2008-09 fiscal year.<sup>13</sup>
- For the five years from 2003-2008, the Consumer Price Index for the Bay Area increased by a total of 13.1% or an average of 2.6% a year.<sup>14</sup>

## 2. Personnel Policies

### a) How Wage and Compensation Packages are Set

From interviews, the Grand Jury learned that most cities set their compensation packages by surveying the wage index for a handful of like cities in the general area-- not for the employment market at large. In union negotiations, cities will often negotiate to a place on the wage index rather than negotiating what they think are reasonable salaries. If the wages in their percentile increase due to new negotiations, all negotiated salaries increase. Additionally, the Grand Jury learned that this practice of limiting the survey to other cities is based on the assumption people from the private sector are not qualified for public sector jobs.

The City of Burlingame stopped using this survey in 2008<sup>15</sup>:

A city official told the Daily Post: "The practice of using neighboring cities as an index had created a system where cities are essentially bidding against each other for the highest wages.

<sup>8</sup> *Almanac*, "Menlo Park Employee Benefits, a Growing Burden," July 5, 2006

<sup>9</sup> *Almanac*, "Menlo Park Contracts Will Boost Benefits 35%," February 14, 2007

<sup>10</sup> *Daily Post*, "San Mateo City Salaries Listed," March 3, 2009

<sup>11</sup> *Daily Post*, "Burlingame Slows Down Payraises," March 17, 2009

<sup>12</sup> *Ibid*: Emde, Lionel; For verification see <http://www.cityofpacific.org/civica/filebank/blobdload.asp?BlobID=3284>

<sup>13</sup> *Almanac*, "Viewpoint," May 6, 2009

<sup>14</sup> <http://www.squarefeetblog.com/commercial-real-estate-blog/2009/01/16/san-francisco-consumer-price-index-cpi-december-2008-update/> 17

<sup>15</sup> *Daily Post*, "Burlingame Slows Down Payraises," March 17, 2009

The collective bargaining process makes it a 'keeping up with (the) Joneses' kind of thing.... It continually puts a great inflationary pressure on salary and wages."

The impact of using such a survey is evident in the case of firefighter compensation. Firefighters often receive the same compensation packages as police officers and, in all cases more than regular employees. (Table 3) While there is a shortage of police officers, there are 300 to 1000 applicants for every firefighter job vacancy.

#### **b) Staff Size: Merging, Streamlining, and Contracting Services**

**Merging services:** From interviews, the Grand Jury learned that the twenty County cities have unnecessary duplication of services for small population pockets, and that there are many opportunities for services in different cities to merge. Some cities have merged their police and/or firefighters with other cities or outsourced the police and fire duties to the County. Some dispatch services have merged. Two neighboring cities share management recreation staff. The San Mateo County Office of Education supplies all payroll services for the more than 150 County public schools.

**Streamlining:** Many cities have streamlined functions by web-enabling their employment applications, building applications, Requests for Proposals, and other services.

**Contracting Services:** From interviews, the Grand Jury learned that services can be less expensive for cities to contract with private companies to execute functions usually performed by employees. Cities have contracted out childcare services that operate on city land, recreation services, landscaping, street sweeping, tree trimming, plan-checking, information technology functions, road surfacing, fleet maintenance, and custodial work.

When contracting services are considered, some cities will allow city departments to submit proposals to maintain the services in-house. There may be legal limitations in the types of services that can be contracted and the manner in which these services can be performed.

Table 8 shows there are differences among staff sizes in the twenty cities of San Mateo County. Many factors contribute to determining the "right staff size."

**Table 8: Comparison of Population Size with City Staff Size**  
(as of December 2008, not including part-time or seasonal workers)

<b>San Mateo County City</b>	<b>Population</b>	<b>Full Time Equivalent Employees</b>	<b>Includes Police</b>	<b>Includes Firefighters</b>
Atherton	7,194	51	yes	no
Belmont	26,078	135	yes	no
Brisbane	3,694	117	yes	yes
Burlingame	28,185	258	yes	yes
Colma	1,197	45	yes	no
Daly City	106,361	562	yes	yes
East Palo Alto	31,500	117	yes	no
Foster City	28,803	213	yes	yes
Half Moon Bay	13,046	52	yes	no
Hillsborough	10,825	115	yes	no
Menlo Park	30,785	244	yes	no
Millbrae	21,387	136	yes	yes
Pacifica	39,616	199	yes	yes
Portola Valley	4,500	14	no	no
Redwood City	75,400	546	yes	yes
San Bruno	41,750	253	yes	yes
San Carlos	27,718	111	yes	no
San Mateo	92,482	580	yes	yes
South San Francisco	60,552	495	yes	yes
Woodside	5,352	21	no	no

### 3. The Role of Politics

#### a) The Nexus Between Unions, City Council Members and Staff

In all San Mateo County cities, salaries, retirement pension plans, other post employment benefit plans, as well as the current health care benefits, workplace rules, salary ranges, and increases are negotiated by unions on behalf of their members. Each city negotiates with three to twelve unions, usually for three-year contracts. (Appendix 2)

The negotiating unit for San Mateo County cities includes city council members and the city manager. They negotiate with the assistance of a labor negotiator. There is a conflict of interest because council members and the city manager, as well as the union members, will benefit in some ways when salaries and compensation packages increase.

When compensation packages are increased senior staff also benefit because although not represented by a union, their salaries and benefits increase proportionally to those whom they manage. Some city council members will benefit financially because they can become vested after five years, during their second terms, and receive healthcare and pension benefits for life.

Additionally, city council members benefit because they will maintain union support, and, in almost all County cities, unions play an active election role. According to the December 2008 edition of the newsletter *Labor*, "The San Mateo County Central Labor Council was successful in winning 75 percent of endorsed local ballot measures and candidate races."

A *Daily Post* editorial<sup>16</sup> quotes from a candidate questionnaire, crafted by the unions for city council candidates, that includes the following sample questions:

"What steps would you support to balance the city's budget?

- a) require city workers to take unpaid time off,
- b) ask voters to raise taxes,
- c) reduce wages and benefits of city workers,
- d) increase user fees,
- e) lay off city workers."

"If elected, will you use your influence as a city council member to support workers who are organizing to form a union or negotiating for a union contract?

a) yes, b) no."

"If the current city council votes to privatize the city's child care programs, will you vote to rescind this decision? a) yes, b) no."

During an interview, a union representative told the Grand Jury in addition to supporting their candidates with funding, union members print, distribute, and mail literature, manage phone banks, and help with candidate campaigns. Unions will also negatively campaign against candidates they oppose.

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<sup>16</sup> *Daily Post*, "Take the quiz unions give to candidates," February 9, 2009



## **b) Public Involvement**

Under California law, labor union negotiations are held in closed session. According to a survey the Grand Jury sent to twenty cities, less than half the cities in San Mateo County hold public discussions before the closed session. Almost all cities place the negotiated contracts on the city council consent calendar, where contracts may be voted on without further discussion among the council members, unless a member of the city council specifically requests that the contract be discussed.

At the September 8, 2008 City of Pacifica council meeting, for example, three contract issues appeared on the consent calendar and were adopted without discussion. The staff report did not describe the fiscal impacts of these decisions, referring readers to the fiscal year 2008-2009 budget in which the increases were anticipated.<sup>17</sup>

### **Ballot measures:**

In some charter cities and counties outside of San Mateo County, ballot initiatives have recently given citizens a chance to vote on retirement and health care benefits.

San Francisco, the City of San Diego, and Orange County have recently passed ballot initiatives as follows:

1. In June 2008, San Francisco voters approved two ballot measures limiting the future cost of retiree health care benefits:
  - a) New employees will contribute two percent of their salary to a new retiree health care fund and the employing agency will contribute one percent.
  - b) New employees must work ten years to receive half of their health care costs when they retire and twenty years for full coverage, whereas previously, if they worked five years they were 100% vested.
2. In November 2006, the City of San Diego required voter approval to any increases in retiree benefits.
3. In November 2008, Orange County voters decided that future retirement increases must be voter approved.

## **Conclusions**

The 2008-2009 San Mateo County Civil Grand Jury concludes:

1. Employee wages and compensation packages are not affordable. The escalating employee costs can and should be reversed in the twenty cities of San Mateo County.
2. Long-term solutions, in addition to stop-gap measures such as temporary wage freezes and furloughs, are needed.
3. Union contracts for new municipal employees can be introduced, reducing the cost to cities for both pension and post-retirement health care plans.

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<sup>17</sup> *Ibid*: Emde, Lionel; for verification see:

<http://www.cityofpacific.org/civica/filebank/blobdload.asp?BlobID=3110> see #6 on consent calendar & attachment  
<http://www.cityofpacific.org/civica/filebank/blobdload.asp?BlobID=3146> see consent calendar minutes

4. For current, as well as newly hired employees, salary increases, total days off, and the ability to accrue and cash out sick leave, can be contained.
5. The practice of basing compensation packages on those of nearby cities contributes to higher employee costs overall.
6. Cost-efficiencies have been achieved by contracting out some services to other cities or to private-sector firms.
7. Cooperation among cities to reduce overlapping functions has been successfully implemented.
8. Political barriers-to-change exist because the people negotiating employee contracts-- staff, unions and city council members-- all benefit when wage and compensation packages increase. These barriers can be neutralized with public involvement and, possibly, through ballot measures.

## **Recommendations**

The 2008-2009 San Mateo County Civil Grand Jury recommends that the city or town council of: Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Millbrae, Pacifica, Portola Valley, Redwood City, San Bruno, San Carlos, San Mateo, South San Francisco, Woodside, take the following actions:

1. Convene at least one public session in 2009 devoted to controlling employee costs by reviewing all applicable issues in this report, including but not limited to the issues presented below. The session should result in a Wage, Benefit and City- Staffing Action Plan.
2. Create a Citizen "Wage Benefit and City Staffing" Task Force consisting of five to seven members, drawn by lottery from resident applicants, charged with:
  - a) Attending the session(s) convened per Recommendation One
  - b) Creating and reviewing the Wage, Benefit and City-Staffing Action Plan (Action Plan) that is produced by the Task Force from this session
  - c) If not satisfied with the Action Plan, recommending ballot measures, in consultation with the city attorney, for the city council to sponsor at the next regularly scheduled election

The items in the Action Plan should address but not be limited to:

- 1. Creating a two-tier system retirement and healthcare benefits system for new hires to:**
  - a) Replace current post employment healthcare plans with health savings plans.
  - b) Increase the age at which employees can start receiving retirement benefits from age 50 or 55 to age 60.
  - c) Base pensions on the average of the last three to five years of salary.
  - d) Make provisions for increasing employee contributions to current pension and post-retirement healthcare plans.

**2. Renegotiating contracts with the unions to modify current benefits for existing employees and to create a two-tier system for new employees to:**

- a) Eliminate the practice of converting accumulated sick leave to cash.
- b) Reduce vacation time.
- c) Reduce the number of personal days.
- d) Increase employee contributions to current health, vision, and dental insurance.
- e) Extend the length of time between automatic salary increases.

**3. Initiating competitive hiring practices to:**

- a) Broaden the compensation horizon by considering comparable jobs in both the private and public sectors.
- b) Employ more market-oriented compensation practices so that salaries can adjust up or down in times of high and low competition for labor.
- c) Consider the number of applicants for respective jobs, when negotiating salaries, noting, for example, that there are often 300 to 1000 applicants for firefighter jobs.
- d) Develop more applicants by initiating outreach programs to universities, community colleges, returning veterans, and local high schools, especially for police recruits.
- e) Join with other cities, and/or the County to create a central training center that promotes cross-training and succession planning for existing staff, and, additionally, introduces qualified applicants from the private sector to public sector service.

**4. Reducing need for Staff by:**

- a) Expanding the use of technology to streamline services.
- b) Exploring the possibility of contracting out some functions currently performed by city employees, while giving those employees the opportunity to cost-effectively retain those functions in house.
- c) Creating partnerships with other cities and/or the county to include, for example: payroll, human resources, landscaping, fire fighting, police, recreation, and, custodial work. The County already provides centralized training and dispatch services.

**5. Increasing Public Involvement by:**

- a) Holding public hearings before initiating closed session negotiations to counter balance strong union pressure in city council election issues and the fact that staff members, who negotiate compensation packages, receive the same negotiated benefits.

- b) Making public the Memorandums of Understanding (MOUs) with the unions that result from these negotiations.
- c) Placing the MOUs as a current agenda item after two weeks of making them public, and invite discussion in a public arena.

**6. Involving Taxpayers:**

- a) If a city council is reluctant to create a two-tier wage and compensation system addressing current and retirement pension and health benefits for new hires for the various unions, the city council should place ballot measures initiating such two-tier systems on local ballots and allow voters to support or reject them.

## **Appendix 1: CalPERS Formula Charts**

1. For Local Miscellaneous Members (dated 04-21-05)  
2% @ 55; 2% @ 60; 2.5% @ 55; 2.7% @ 55; 3% @ 60
2. For Local Safety Members  
2% @ 50; 2% @ 50; 2.5% @ 55; 3% @ 50; 3% @ 55

## **Appendix 2:**

Many cities post Union Contracts on their websites.

Go to:

1. City website.
2. City Departments
3. Personnel (or Human Resources)
4. And find the contacts listed there.

For Daly City, for example, which negotiates with 12 separate unions, go to [http://www.dalycity.org/city\\_services/depts/hr/mous.htm](http://www.dalycity.org/city_services/depts/hr/mous.htm)

## **ATTACHMENT B**

### **Draft Response for Council Review**

**City of Belmont's Response to the 2008-2009  
San Mateo County Civil Grand Report on the  
Upward Trajectory of Employee Costs in Cities**

## **Draft for City Council Review**

### **City of Belmont's Response to the 2008-2009 San Mateo County Civil Grand Report on the Upward Trajectory of Employee Costs in Cities**

The City of Belmont has studied the above mentioned report and respectfully submits the responses below. Responses have been organized into three sections which correspond with the Grand Jury Report: 1) Introduction, 2) Findings and Discussion and 3) Recommendations.

#### **Introduction**

The 2008-2009 Civil Grand jury report states:

*“In the cities of San Mateo County employees’ wages and compensation packages continue to escalate despite the deficit environment that has existed since the dot com bubble burst and despite the aggravated deficits experienced in the more recent economic downturn. To accommodate escalating employee costs and balance their budgets cities have increased user fees raised taxes issued bonds transferred funds from their reserves and postponed needed infrastructure projects. Because personnel costs typically comprise 70% of the operating budgets in the cities of San Mateo County any cost containment measures must halt and reverse the escalation of employee costs.”*

This statement contains the assumptions upon which the report was written. One needs to critically analyze these assumptions as they apply to the City of Belmont as responses are constructed. The following points are offered:

- a) The City of Belmont has only been in a “deficit environment” for the last year. Prior to that, City General fund revenues exceeded the rate of employee cost growth. Belmont was one of only four cities in the County whose employee cost growth rate was less than revenue growth. It is only in the last year that the City has experienced budget deficits and the City Council has made expenditure reductions sufficient to eliminate these deficits.
- b) During the period from the Dot Com recession until 2008, the City has not been transferring money out of reserves, but instead is increasing its General fund reserves.
- c) Infrastructure capital funding for utilities such as sewer is being funded through user charges. Long term bonds are utilized to finance long term assets such as pipelines and treatment plant renovation. This is a best practice of the private sector as well as government.
- d) General government infrastructure such as streets and roads have not had an adequate funding source for decades. Employee cost growth is not the problem with general government infrastructure funding. The problem is simply inadequate funding sources such as gas tax.
- e) While the City did enhance Public Safety pensions to the 3% @ age 50 formula, it did not enhance miscellaneous employees’ pensions. Miscellaneous employee pensions remain on the 2% @ age 55 formula.

- f) User fees are increased to cover cost increases, but taxes have not been amended in years.
- g) Employee costs are not in excess of 70% of the operating budget in Belmont. In Belmont, the number is 66 %.

Based on the above, the Grand Jury assumptions do not neatly correlate with what is actually happening in Belmont. Employee costs have historically tracked with the rate of inflation and have been less than General fund revenue growth. The employee cost budget as a per cent of the operating budget is well below cautionary levels.

Further, the Grand Jury report is completely silent on the fact that all of the San Mateo County Cities are union shops with negotiated labor agreements in accordance with State Statutes. The City of Belmont has a long history of negotiating reasonable labor agreements and then honoring them throughout the life of the contract. We intend to continue that past practice.

## **Findings and Discussion**

### ***Salary and Compensation Packages***

#### ***a) Retirement Pension Benefits***

##### ***Table 3: Retirement Formulas for San Mateo County Cities***

It should be noted that the City of Belmont did not opt for an enhanced retirement formula as did the majority of the other cities surveyed. Belmont has chosen to maintain the 2%@ 55 formula for its miscellaneous (non-safety) employees.

##### ***Table 4: Cities That Have Reduced Retirement Benefits for New Hires***

This table shows Belmont having two retirement formulas for non-safety employees, one for prior hires and one for newly hired employees. This finding is incorrect, Belmont does not have different retirement benefit formulas for prior employees and new hires. Belmont currently has the 2%@55 retirement formula for all non-safety employees.

In addition this table does not show the retirement formulas for Belmont's Police Officers. The table should read 3%@50 for both prior and new hires.

## **Recommendations**

***The 2008 2009 San Mateo County Civil Grand Jury recommends that the city or town council of Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Millbrae, Pacifica, Portola Valley, Redwood City, San Bruno, San Carlos, San Mateo, South San Francisco, Woodside take the following actions:***

- 1) Convene at least one public session in 2009 devoted to controlling employee costs***  
*By reviewing all applicable issues in this report including but not limited to the issues presented below. The session should result in a Wage Benefit and City Staffing Action Plan*



## **City Response:**

Convening a public meeting to discuss City employee compensation in general is a reasonable suggestion. However, state law requires the City to bargain in good faith with recognized bargaining units and developing specific action plans in a public forum would be problematic from a labor relations and confidentiality standpoint. A reasonable middle ground might be to solicit public input in a public City Council meeting prior to beginning contract negotiations with the recognized bargaining units.

Holding a public meeting to discuss controlling employee costs would not be a problem. Staff could author a report articulating all the facts related to Belmont's employee costs segregated between public safety and non safety employees. It is a policy matter for the City Council to decide. The Mayor and Vice Mayor set the agenda. They could simply direct the City Manager to develop such a report.

### **2) *Create a Citizen Wage Benefit and City Staffing Task Force consisting of five to seven members drawn by lottery from resident applicants charged with:***

- a) Attending the sessions convened per Recommendation One.*
- b) Creating and reviewing the Wage Benefit and City Staffing Action Plan (Action Plan) that is produced by the Task Force from this session.*
- c) If not satisfied with the Action Plan, recommending ballot measures, in consultation with the city attorney, for the city council to sponsor at the next regularly scheduled election.*

## **City Response:**

The Grand Jury recommends more extensive involvement of citizens in decision-making related to public employee compensation. The City of Belmont encourages input from the public in regard to this matter. However, the City respectfully submits that a "Wage, Benefit and Staffing Task Force" made of volunteer residents selected at random may be counterproductive to the goals articulated in the Grand Jury report. The City Council, rather than a randomly selected task force, is the appropriate body to create an action plan addressing the issues raised by the Grand Jury.

The City supports the solicitation and consideration of public input through public meetings during the planning process at the outset of labor negotiations. In addition, the City believes consultation with those educated in the field is well-advised to avoid potential legal concerns relating to compensation. Yet ultimately, the City Council is appropriately charged with creating policy pertaining to public employee compensation in the City.

Issues related to public sector employee compensation are intricate and at times involve complex legal issues. Furthermore, changes in compensation for public employees may have a significant impact on both City finances and the provision of services, and can be momentous decisions for any city council. Specialized knowledge in this area of expertise is required in order to make prudent decisions regarding civil service compensation. Task Force members selected at random may be ill equipped to deal with the intricacies and legal requirements related to public sector compensation.

To appropriately evaluate compensation issues, the Belmont City Council regularly consults with individuals knowledgeable in this area of the law. The Council contracts with an outside attorney negotiator to advise the City and conduct labor negotiations on behalf of the City. In addition, the City has utilized a Finance Committee, composed of a Certified Public Accountant and the City Attorney, to advise the Council on complex compensation issues in the past. The Council hones its knowledge relating to public sector compensation on an ongoing basis and remains amenable to various compensation models and options to balance spending control with the ability to recruit and retain qualified civil servants.

Based on input from citizens and the City's advisors, the City Council must ultimately make the decisions relating to compensation that it was elected to carry out. This includes creation of the recommended action plan.

***The items in the Action Plan should address but not be limited to:***

- 1. Creating a two tier system retirement and healthcare benefits system for new hires to:***
  - a) Replace current post employment healthcare plans with health savings plans*
  - b) Increase the age at which employees can start receiving retirement benefits from age 50 or 55 to age 60*
  - c) Base pensions on the average of the last three to five years of salary*
  - d) Make provisions for increasing employee contributions to current pension and post retirement healthcare plans*
- 2. Renegotiating contracts with the unions to modify current benefits for existing employees and to create a two tier system for new employees to:***
  - a) Eliminate the practice of converting accumulated sick leave to cash*
  - b) Reduce vacation time*
  - c) Reduce the number of personal days*
  - d) Increase employee contributions to current health vision and dental insurance*
  - e) Extend the length of time between automatic salary increases*

### **City Response:**

The Grand Jury supports the concept of placing measures on the electoral ballot to address "two-tiering" retirement compensation. As discussed below, this function is one of many that City Council members are elected to perform. The power to set compensation for City employees is a mandate of significant magnitude granted to the Council by the California Constitution, and is a function that the Council carries out in earnest and with substantial commitment.

The Belmont City Council endorses the creation of an action plan prior to the beginning of labor contract negotiations. However, the Council respectfully submits that the Council itself, as elected by the voters, is appropriately charged with its creation. The issue of two-tiered retirement and benefit plans is a legitimate topic for future bargaining. However, the City of Belmont has not enhanced retirement benefits for non-safety employees, therefore the comment would not have application in Belmont.

### **3) Initiating competitive hiring practices to:**

- a) *Broaden the compensation horizon by considering comparable jobs in both the private and public sectors.***

#### **City Response:**

Broadening the compensation horizon by considering comparable jobs in both the private and public sector can be achieved after careful analysis of positions that have similar duties/responsibilities and qualifications; union organizations are typically part of the discussions. There are some job positions that have true comparables and are transferrable/interchangeable from private to public sector and vice versa. Examples of those positions include some administrative assistant/office positions; maintenance positions, some computer/information technology positions. Conversely, there are some jobs that have no close comparables to the private sector. Those jobs include police officer and fire fighter.

- b) *Employ more market oriented compensation practices so that salaries can adjust up or down in times of high and low competition for labor.***

#### **City Response:**

The recommendation of employing more market oriented compensation practices so that salaries can adjust up or down in time of high and low competition for labor needs to be looked at carefully—are we referring to employees already with the organization or candidates being considered for employment? A number of these issues obviously are subject of meet and confer with the union organizations. This strategy could be a bit unstable due to the unknown. A variation of the recommendation would be agreed upon contractual language that could be a trigger holding in abeyance normal salary adjustments in times when the organization can demonstrate its significant economic changes, i.e. loss in revenue. This is a more proactive step—we would not frantically be reacting to situations by trying to renegotiate with the unions, or implementing furloughs, hiring freezes or possible lay offs when the problem arises.

- c) *Consider the number of applicants for respective jobs when negotiating salaries noting for example that there are often 300 to 1000 applicants for firefighter jobs.***

#### **City Response:**

Considering the number of applicants for respective jobs when negotiating salaries noting for example that there are often 300 to 1000 applicants for firefighter jobs can be utilized during the salary negotiations at the time of job offer. Agencies have the ability, if there is no loss in compensation for potential new hires, to bring new employees at the step1 or lowest step of the salary range. If the first choice candidate declines, the agency can easily go to candidate #2. With a large candidate pool, the agency has options. Conversely, if the labor market is tight and agencies are having difficulty in attracting applicants, agencies

may want to hire at a higher step or if allowable, providing sign-on bonuses. These sign-on bonuses are one time lump sum payments and are tied to successful performance and length of employment. It is a known one time cost. Public sector organizations may want to consider this vs. the long-term cost commitments tied to salary. It also allows public agencies to compete better with the private sector.

***d) Develop more applicants by initiating outreach programs to universities community colleges returning veterans and local high schools especially for police recruits.***

**City Response:**

Developing more applicants by initiating outreach programs to universities community colleges, returning veterans and local high schools, especially for police recruits, is being done. Belmont could certainly expand our outreach to an even younger population. Why not start at the junior high levels and hold “career days”. One idea would be to introducing a program which highlights the sometime unknown career opportunities in local government. In addition the program could market working in the public sector by highlighting the ability to make a difference in the community while earning competitive wages and benefits.

***e ) Join with other cities and or the County to create a central training center that promotes cross training and succession planning for existing staff and additionally introduces qualified applicants from the private sector to public sector service.***

**City Response:**

Belmont has joined with other cities of San Mateo and the San Mateo County to create a central training center that promotes cross training and succession planning for existing staff and additionally introduces qualified applicants from the private sector to public sector service.

Belmont has been and continues to be involved in the Management Talent Exchange Program (MTEP). The MTEP program which partners cities in San Mateo County and Santa Clara County provides exchange employment opportunities for employees. We have offered four opportunities in the Finance, Human Resources, and Park and Recreation Departments to allow for interested and qualified individuals from various other cities to learn and contribute at the City of Belmont. In addition, several City staff have participated in the program.

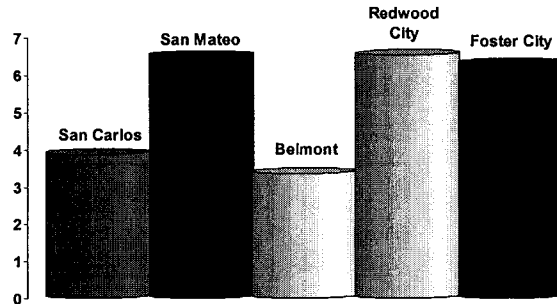
Most recently, San Mateo County Human Resources Directors rolled out a plan to implement a regional training program which would consolidate training programs offered to public employees in San Mateo County. Belmont’s Human Resources Director is on the planning committee along with a few representatives from other Cities. The idea to achieve a more effective and efficient way to deliver training opportunities that is more cost effective for the cities of San Mateo County and the County of San Mateo.

#### **4) Reducing need for Staff by:**

##### **City Response:**

It terms of reducing the need and number of staff, it should be noted the City of Belmont has significantly less employees per 1,000 residents as compared to its neighboring cities, as the chart below illustrates:

**Number of General Fund Employees per 1,000 Residents**



##### ***a) Expanding the use of technology to streamline services.***

Belmont has been and continues to introduce the use of technology in an effort to streamline services. To date the City has implemented the following:

- Automated phone system in the permit center which allows citizens and customers to make inspection appointment as well as inquire on the status of permits, projects and code enforcement issues.
- The City of Belmont website has Questys, an online searchable database which allows the public to search for City items of interests (i.e. staff reports, meeting minutes, resolutions, etc.).
- The Parks and Recreation Department utilizes an online registration system which allows citizens to register for classes and programs at any time day or night.
- The City is currently working on an “e-vision” project which when completed will create a 24/7 virtual City Hall where citizens and customers can do City business twenty four hours a day, seven days a week.

##### ***b Exploring the possibility of contracting out some functions currently performed by city employees, while giving those employees the opportunity to cost-effectively retain those functions in house.***

Belmont currently contracts out for the following services:

- Traffic signal maintenance
- Janitorial services
- Specialized building maintenance (i.e. plumbing, electrical and HVAC)
  
- Street median maintenance

- Specialized engineering services
- Land use planning services

***c) Creating partnerships with other cities and or the county to include for example payroll, human resources, landscaping, fire fighting, police recreation and custodial work. The County already provides centralized training and dispatch services.***

The City of Belmont is always open to partnerships. The City continues to obtain fire services from the Belmont –San Carlos Fire Department through a joint powers authority (JPA) with the City of San Carlos. Other current shared services include:

- Animal Control
- Solid Waste Management
- Library Services
- Sewage Treatment
- Fiscal and HR Services
- Fire Dispatch
- Transportation Planning
- Specialized Police functions such as SWAT

#### **5) Increasing Public Involvement by:**

***a) Holding public hearings before initiating closed session negotiations to counter balance strong union pressure in city council election issues and the fact that staff members who negotiate compensation packages receive the same negotiated benefits.***

##### **City Response:**

The City is not opposed to holding public hearings prior to initiating closed session negotiations. Such meetings would provide the public the opportunity to comment on issues and concerns pertaining to negotiations and allow for public suggestions on future contracts. In advance of the closed session, the City would convene a public hearing to obtain feedback, in this instance the public could comment about the cost and salaries of employees and concerns or suggestions they may have. The public could include various parties such as the labor organizations representatives, public interest groups, and the citizens/taxpayers of the community.

***b) Making public the Memorandums of Understanding MOUs with the unions that result from these negotiations.***

##### **City Response:**

The City posts on its public website the Memorandums of Understanding (MOUs) with each of its three bargaining groups. These are typically available shortly after negotiations have concluded and the documents have been ratified and adopted. The public can review anything from salary information, benefits offered, and terms and conditions of employment.

***c) Placing the MOUs as a current agenda item after two weeks of making them public and invite discussion in a public arena***

**City Response:**

Placing the MOUs as a current agenda item after two weeks of making them public and invite discussion in a public arena does not make sense. If a MOU has ratified or if there is a tentative agreement between the union and city, what value will a public discussion have at this point? The City's suggestion is to hold the public meetings in advance of the close sessions; the city would have the ability to consider what the public is proposing and can consider incorporating it into the City's proposal. The city is also in support of creating a labor sub-committee as needed.

**6) Involving Taxpayers**

- a) If a city council is reluctant to create a two tier wage and compensation system addressing current and retirement pension and health benefits for new hires for the various unions the city council should place ballot measures initiating such two tier systems on local ballots and allow voters to support or reject them.*

**City Response:**

**Non-Safety**

Once again, the City of Belmont never enhanced non-safety retirement formulas as other cities did. Therefore, this portion of City pension costs is not in need of reduction. The City of Belmont non-safety pension costs as reported in the Grand Jury Report are 13.1% of payroll. This compares very favorably with the County wide average of 15.3% shown in Table 6 of the Grand Jury Report (p. 12). The City has been steadfast in maintaining a 2% at 55 retirement formula for miscellaneous employees, and has firmly resisted efforts to bargain for an enhanced formula.

**Safety**

The City has shown willingness to create two-tier compensation. As noted by the Grand Jury report, the Belmont-San Carlos Fire District implemented two-tier pension for firefighters. Individuals hired prior to the agreement over two-tier pension receive a retirement formula of 3% at 50, and employees hired after the date of the agreement receive a retirement formula of 3% at 55.

The Grand Jury supports the idea of placing changes to employee compensation on the electoral ballot. The City responds, as discussed above, that Council has a constitutional mandate to set employee compensation on an annual basis, as part of the annual budget process. As the Council was elected, in part, to fulfill this function, it devotes careful

consideration to the process and issues involved. The City Council firmly believes that this mandate should not be disregarded, and the State Constitution provides that the responsibility cannot be delegated or passed on to any private person or body.

The Council's mandate to prepare, analyze and approve the City budget, including employee compensation, is addressed thoughtfully and thoroughly. The Council must sometimes deal with challenging and complex dilemmas that arise during this annual process. When such issues arise, the Council seeks to scrupulously undertake and resolve the tough questions it was elected by the voters to take in hand. The City Council respectfully submits that its past performance demonstrates that it is in no way reluctant to take on the complex issues related to employee compensation, including a "two-tier" approach to pension and health benefits..



**ATTACHMENT C**

**San Mateo County City Managers Association  
Response to the San Mateo County Grand Jury Report  
On The Upward Trajectory of Employee Costs in Cities**

**San Mateo County  
City Managers Association**

**Response to the San Mateo County Grand Jury Report  
On The Upward Trajectory of Employee Costs in Cities**

The Cities of San Mateo County have received and reviewed the "San Mateo County Grand Jury report on the Upward Trajectory of Employee Costs in the Cities of San Mateo County." We appreciate the efforts of the Grand Jury to elevate this very complex issue for cities and one that has recently been under much public scrutiny. This response is being sent on behalf of a San Mateo County task force that began cooperatively looking at the issue of public employee wages and benefits in the County in June 2008, prior to the release of the Grand Jury report. In this response, which has also been sanctioned by the San Mateo County City Manager's Association and Human Resources Association, we provide the following information:

I) Background information – in addition to what is provided in the grand jury report, this response will provide additional background information related to this issue.

II) Common and shared interests – the response will also highlight the stakeholders' common and shared interests. Stakeholders include the tax-payers, City Councils, City personnel, labor groups, and the grand jury.

III) General responses to the grand jury's recommendation – These responses will be provided from a regional perspective and elaborate on initiatives that have already been developed and/or implemented throughout San Mateo County.

I) Background Information:

As the grand jury states, two significant pieces of legislation were passed by the State of California in the late 1990s: enhanced retirement formulas for safety groups and binding arbitration for safety contract negotiations. This resulted in safety unions having tremendous leverage at the bargaining table and they were empowered then to bargain significant wage and benefit enhancements for their members. At this same time, cities were having much difficulty in attracting police and fire candidates in what was a very tight, "dot-com" labor market. As the grand jury recommends, cities did consider the number of applicants for these occupations when negotiating salaries in the 1990's. In that era, candidates were hard to come by and wages were not competitive with the overall Silicon Valley labor market. Many public employees do not participate in social security and do not have the stock option plans and 401(k) plans that were experiencing substantial investment return growth during the dot-com boom. The confluence of these events lead to wage and benefit enhancements that are beyond affordability in today's economy.

Another factor that contributed to pension enhancements was the proposed costs supplied by the California Public Employee's Retirement System (CalPERS). When initially adopted, pension enhancements were calculated by Cal PERS and reported in actuarial

## **San Mateo County City Managers Association**

evaluations to cost close to zero for many agencies. This was due to the unprecedented investment returns earned by the retirement system in the latter part of the 1990's. Although many agencies were skeptical of these "free benefits", the convergence of the tight labor market, binding arbitration and ostensibly inexpensive enhancements created a fertile environment for wage and benefit expansions for labor units. As more and more cities began implementing these benefits, others felt the pressure to provide the same for their employees. Similarly, when CalPERS made available pension enhancements for miscellaneous employees, the pressure of competitiveness, issues of within-agency equitability, and inexpensive enhancements caused many agencies to enhance miscellaneous benefits as well. Clearly over the last few years cities have realized that their worst fears were being realized and the costs associated with these salary and benefit changes were no longer sustainable.

In an effort to address the issues subsequently discussed in the Grand Jury's report, in the spring of 2008 San Mateo County cities created the Municipal Employee Relations Committee (MERC). The purpose of MERC is to identify and develop information and analysis that will assist municipalities in understanding the dynamics that are occurring relative to employee costs and recruitment, and to provide options for consideration for use by San Mateo County cities in addressing the employee cost growth that has been exceeding the growth in revenues.

The MERC Committee seeks to identify actions that could be jointly undertaken that would better inform the staff and elected officials, as well as, possibly secure resources that could initiate the development of an array of alternatives for consideration by the respective city councils throughout the County. A priority goal for the committee has been to develop confidential labor relations information that will allow the staff and elected leaders a better understanding of total employee cost trends in the county and how their jurisdiction fits into that broader picture. As evidenced by the testimony provided to the Grand Jury by different City Managers we believe the MERC has been able to elevate this important issue.

### **II) Stakeholder Interests Regarding Escalating Costs of Wages and Benefits**

In order to fully understand this issue from a policy perspective, MERC, the City Managers Association and the Human Resources Association felt it was imperative to identify key interests that should guide policy development and implementation for the elected officials within the County. Though not explicitly stated, these interests are embedded throughout the Grand Jury's report:

- a) Attract and retain a highly qualified municipal workforce.  
By and large, positions in the municipal workforce require specialized skills, knowledge and education. Cities employ a plethora of occupations from Engineers to Attorneys to Firefighters and Police Officers. Municipal governments must maintain a competitive compensation package that is adaptable to the needs of our diverse workforce as well as the fluctuations in the overall economy.

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b) Maintain City services and infrastructure.

Clearly the costs of maintaining the workforce cannot come at the expense of failing sewer systems, water plants, library services and recreation programs. The taxpayer who funds City services and programs should have those services and programs available to him/her now and in generations to come.

c) Honor the tenets of public service.

Many who join municipal organizations do so for the challenging and rewarding work, the ability to make a difference in their communities and the relative security in their positions in a stable organization. Cities don't offer the "glitz" associated with many private sector organizations, but we do offer a sense of purpose and meaning in serving the community. As such, we must examine our current compensation programs that reward performance and insure that these programs are not so costly that we are forced to continually reduce our workforces because of the exorbitant costs associated with each full-time equivalent employee.

**III) General responses to the recommendations**

MERC surveyed City Managers, Human Resources Directors and Finance Directors in San Mateo County regarding the Grand Jury's recently released report and has confirmed support for consideration of the options that follow. Many respondents pointed out that they currently employ the stated recommendations:

- a. Creating a two tier retirement and health-care benefits system for new hires.
- b. Replacing current post-employment health care plans with health saving plans funded during active employment with the agency.
- c. Lobbying Cal PERS to increase the age at which employees can start receiving retirement benefits from age 50 or 55 to age 60 for non safety employees
- d. Basing pensions on the average of the last three to five years of salary.
- e. Making provisions for increasing employee contributions to current pensions and post-retirement health care plans. In addition we believe that cities should be looking to active employees to pay for some portion of their health care, vision, and dental cost.
- f. Review the practice of converting accumulated sick leave to cash and consider placing caps on accumulation of sick leave.
- g. Broadening the compensation discussions by considering comparable jobs in both the private and public sectors. It is important to point out that some professions will not have comparable positions, especially sworn safety positions. A better comparison may be to look at the ratio of salary to benefit costs of private employers and also the average salary increases given in mid-size, private organizations in the region.
- h. Consider the number of applicants for respective jobs when negotiating salaries.

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- i. Develop more applicants by initiating outreach programs to universities, community colleges, returning veterans, and local high schools, especially for police positions.
- j. Join with other cities, and/or the County to create central training center that promotes cross-training and succession planning for existing staff.
- k. Using technology to streamline services.
- l. Explore contracting out some functions currently performed by city employees, but give those employees an opportunity to cost effectively retain those functions within the organization.
- m. Create partnerships with other cities and/or the county including payroll, human resources, landscape maintenance, firefighting, police, recreation, and custodial work.
- n. Making public the memoranda of understanding with labor units that come out of the labor negotiations. The majority of agencies clarified that the contracts are available at the public meeting where they're approved as well as posted on an on-going basis on the agency's website.

As the jury members know from their research, there are a number of examples in San Mateo County where cities have implemented two tier retirement benefits in both the areas of retiree health and retiree compensation. The same is true in the area of shared services. Additionally, in just the last few months the Human Resources Directors have rolled out a plan to implement a regional training program which would consolidate training programs offered to public employees in San Mateo County. For many years cities in San Mateo County have been involved in recruitment consortiums and outreaching employment opportunities to universities, community colleges, and local high schools, and just this year implemented a regional internship program for college students. These activities, coupled with a regional job applicant website and employee relations joint powers authority a few examples of shared or regionalized services that are effective and efficient models for government operations.

There was no support for the recommendation to "create a Citizen Wage Benefit and City Staffing Task Force consisting of five to seven members, drawn by lottery from resident applicants". Many felt the focus should be on continuing the education of all the stakeholders regarding this issue. The grand jury report is a stellar example of such an education. The consensus of the group was that more complete education and information would lead to better informed council members who could then make better decisions in the long haul. Other concerns raised were primarily focused on the notion that undertaking such a complex subject would be best addressed by randomly selecting from volunteer applicants rather than selecting community members that have particular expertise, experience, and backgrounds that could provide valuable insight and resources to under take the assignment. It appears that the Grand Jury members were concerned that the city council members could not be trusted to select the task force members, as they may appoint people that would be too supportive of current compensation practices. That thinking failed to consider the potential for biased volunteers to fill the applicant pool from which the names would be randomly selected.

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Although there is general support for conducting a public meeting(s) to solicit community input regarding potential actions or changes that would be appropriate relative to rising cost for public employees, there is concern that using that public forum to develop a specific action would be problematic from a labor relations and confidentiality standpoint. As employers, we have an affirmative obligation to collectively bargain with our units. However, there is agreement that the public input received at such a meeting should be taken into consideration in the development of an action plan to guide the city's future actions relative to labor negotiations.

There was no support for the recommendation to develop local ballot initiatives should the elected Council members be reluctant to support two tier retirement systems relative to pensions and health benefits. That recommendation appears to challenge the wisdom of the republic form of government where voters elect representatives to invest the time and energy to understand the issues and once so informed they vote to set public policy. Although we generally share and appreciate the members of the grand jury's passion for their conclusion that a two tier system is in order, we cannot support the notion that if duly elected representatives do not share their conclusion that an elected body should be denied its ability to make such a decision.

On behalf of the City Managers Association and Human Resources Association of San Mateo County I thank you for your attention to this very complex issue. As we examine the area of wages and benefits to public employees we will all need to work together and think creatively to attract and retain our workforce while still providing critical services to our community. The grand jury's report elevates the discussion and brings the issue center stage in San Mateo County. Clearly the situation that exists today did not occur over night nor will efforts to make desired changes be achieved over night. Although not addressed in the Grand Jury Report the legal constraints and labor laws relative to good faith bargaining will clearly constrain elected and appointed officials in their efforts to make suggested changes. We are hopeful that through collaboration and cooperation with elected officials and labor leaders we will implement many of the recommendations in the report.

Sincerely,



Connie Jackson  
Chair San Mateo County City Managers Association

Cc: MERC Members  
City Manager's Association of San Mateo County  
Human Resources Association of San Mateo County